

Issued under Public Act 2 of 1968, as amended .

Unit Name	Village of Shepherd	County	ISABELLA	Type	VILLAGE	MuniCode	37-3-020
Opinion Date-Use Calendar	May 27, 2008	Audit Submitted-Use Calendar	Jul 9, 2008	Fiscal Year-Use Drop List	2008		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

☒

1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?

☒

2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?

☐

3. Were the local unit's actual expenditures within the amounts authorized in the budget?

☒

4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?

☒

5. Did the local unit adopt a budget for all required funds?

☒

6. Was a public hearing on the budget held in accordance with State statute?

☒

7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?

☒

8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?

☒

9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?

☒

10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)

☐

11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)

☒

12. Is the local unit free of repeated reported deficiencies from previous years?

☒

13. Is the audit opinion unqualified?

14. If not, what type of opinion is it?

NA

☒

15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?

☒

16. Has the board or council approved all disbursements prior to payment as required by charter or statute?

☒

17. To your knowledge, were the bank reconciliations that were reviewed performed timely?

☒

18. Are there reported deficiencies?

☒

19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 657,659.00
General Fund Expenditure:	\$ 111,679.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 168,685.00
Governmental Activities Long-Term Debt (see instructions):	\$ 39,785.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	William	Last Name	Hirschman	Ten Digit License Number				1101016179	
CPA Street Address	308 Gratiot Avenue	City	Alma	State	MI	Zip Code	48801	Telephone	+1 (989) 463-6123
CPA Firm Name	Roslund, Prestage & Co., P.C.	Unit's Street Address	251 W. Wright Avenue	City	Shepherd	LU Zip	48883		

Financial Statements

Village of Shepherd

February 29, 2008



Village of Shepherd
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INDEPENDENT AUDITOR'S REPORT

Village of Shepherd
Shepherd, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Shepherd (the Village) as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village as of February 29, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 27, 2008 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information shown in this report are not a required part of the basic financial statements but are supplementary information required by the accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining and individual fund statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Roslund, Prestage & Company, P.C." in a cursive script.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

May 27, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS



VILLAGE OF SHEPHERD
Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances.

Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's combined net assets decreased by 1.30% from a year ago - decreasing from \$3,276,442 to \$3,232,847. As we look at the governmental activities separately from the business-type activities, we can see that the net assets of the governmental activities decreased by \$124,337 during the year. The net assets of the business-type activities increased by \$80,742 during the year.

The table below shows a condensed statement of net assets as of February 29, 2008:

	Governmental Activities	Business- Type Activities	Total
Current Assets	588,948	268,606	857,554
Noncurrent Assets	824,127	2,783,337	3,607,464
Total Assets	1,413,075	3,051,943	4,465,018
Current Liabilities	67,989	194,182	262,171
Non-current Liabilities	-	970,000	970,000
Net Assets:			
Invested in Capital Assets, Net	384,005	1,623,337	2,007,342
Restricted	243,646	-	243,646
Unrestricted	717,435	264,424	981,859
Total net assets	1,345,086	1,887,761	3,232,847

The current level of unrestricted net assets for our governmental activities stands at \$717,435.

Expenditures of the governmental funds increased by about \$103,244 during the year compared to what was spent in the 2006/2007 budget year, which was not expected from the budget that was set, considering the Village discussed lowering their expenditures from the previous year of 2006/2007.

VILLAGE OF SHEPHERD
Management's Discussion and Analysis

Business-Type Activities

The Village's business-type activities consist of the Water and Sewer Fund. We provide water to approximately 90% of Village residents, which comes from the Village water system. We provide sewage treatment to approximately 95% of Village residents, through the Village sewage treatment plant.

The Village's Funds

Our analysis of the Village's major funds begins on page 3, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property taxes.

The General Fund pays for most of the Village's governmental services. The amount transferred to the General Fund is supported by a detailed calculation of the current year costs of the specific capital outlay approved by the Village Board.

General Fund Budgetary Highlights

There were no significant changes.

Capital Asset and Debt Administration

At the end of 2008, the Village still had \$ 3,207,127 invested in a broad range of capital assets, including buildings, police, and water and sewer lines. In addition, the Village has invested significantly in major roads within the Village, along with some minor local street improvements. These assets are not reported in the Village's financial statements because of Michigan law, which makes these roads the property of the County Road Commission (along with the responsibility to maintain them).

Economic Factors and Next Year's Budgets and Rates

The Village's budget for 2008-2009 is very similar to the previous year. The Village will again need to continue to watch its budget very closely and try to minimize expenditures.

Contacting Village Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village at 251 W. Wright Avenue, Shepherd, Michigan, 48883. The Village phone number is (989) 828-5278.

GOVERNMENT-WIDE FINANCIAL STATEMENTS



Village of Shepherd
Statement of Net Assets
February 29, 2008, With Comparative Data

	Governmental Activities	Business-Type Activities	Total	2007
Assets				
Current assets				
Cash and cash equivalents	\$413,514	\$244,406	\$657,920	\$862,698
Accounts receivable, net	118,030	13,400	131,430	66,589
Due from other governmental units	57,404	-	57,404	48,401
Inventory	-	10,800	10,800	10,800
Total current assets	588,948	268,606	857,554	988,488
Noncurrent assets				
Special assessments receivable	400,337	-	400,337	555,212
Capital assets - depreciable, net	423,790	2,783,337	3,207,127	3,257,895
Total noncurrent assets	824,127	2,783,337	3,607,464	3,813,107
Total assets	1,413,075	3,051,943	4,465,018	4,801,595
Liabilities				
Current liabilities				
Accounts payable	21,102	2,929	24,031	6,684
Accrued wages and other payroll liabilities	7,102	1,253	8,355	8,119
deferred revenue	-	-	-	82,265
Current portion of long-term debt	39,785	190,000	229,785	228,300
Total current liabilities	67,989	194,182	262,171	325,368
Noncurrent liabilities				
Bonds payable	-	970,000	970,000	1,199,785
Net Assets				
Invested in capital assets, net of related debt	384,005	1,623,337	2,007,342	1,829,810
Restricted for debt service	243,646	-	243,646	274,844
Unrestricted	717,435	264,424	981,859	1,171,788
Total net assets	\$1,345,086	\$1,887,761	\$3,232,847	\$3,276,442

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Activities
For the year ended February 29, 2008, With Comparative Data

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			2007
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total	
Governmental activities								
General government	\$78,534	\$51,163	-	-	(\$27,371)	-	(\$27,371)	(\$83,072)
Public safety	162,656	-	-	-	(162,656)	-	(162,656)	(169,009)
Public works	436,157	-	-	\$82,265	(353,892)	-	(353,892)	(270,209)
Recreation and culture	4,212	-	-	-	(4,212)	-	(4,212)	(3,218)
Debt service	249,495	117,037	-	-	(132,458)	-	(132,458)	(25,751)
Other expenditures	106,876	-	-	-	(106,876)	-	(106,876)	(101,085)
Total governmental activities	1,037,930	168,200	-	82,265	(787,465)	-	(787,465)	(652,344)
Business-type activities								
Water and sewer	238,083	120,872	-	-	-	(\$117,211)	(117,211)	(107,079)
Total	\$1,276,013	\$289,072	-	\$82,265	(787,465)	(117,211)	(904,676)	(759,423)
General revenues and transfers								
Taxes					346,788	-	346,788	340,475
State shared revenues					257,634	-	257,634	261,681
Unrestricted investment earnings					18,233	7,375	25,608	24,327
Miscellaneous revenues					20,473	20,578	41,051	51,787
Debt payment between funds					-	190,000	190,000	190,000
Transfers					20,000	(20,000)	-	3,500
Total general revenues and transfers					663,128	197,953	861,081	871,770
Change in net assets					(124,337)	80,742	(43,595)	112,347
Net assets - beginning of year					1,469,423	1,807,019	3,276,442	2,691,148
Prior period adjustment					-	-	-	472,947
Net assets - end of year					\$1,345,086	\$1,887,761	\$3,232,847	\$3,276,442

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS



Village of Shepherd
Balance Sheet
Governmental Funds
February 29, 2008

	Major Funds					Total Governmental Funds
	General	Major Street	Local Street	Police	Debt Service	
Assets						
Cash and cash equivalents	\$159,152	\$34,696	\$15,170	\$20,005	\$120,569	\$349,592
Accounts receivable, net	12,929	-	-	-	505,438	518,367
Due from other governmental units	26,075	14,775	4,954	-	11,600	57,404
Total assets	<u>\$198,156</u>	<u>\$49,471</u>	<u>\$20,124</u>	<u>\$20,005</u>	<u>\$637,607</u>	<u>\$925,363</u>
Liabilities						
Accounts payable	\$19,180	\$456	\$583	\$883	-	\$21,102
Accrued wages and other payroll liabilities	3,915	377	200	2,610	-	7,102
Deferred revenue	6,376	-	-	-	\$393,961	400,337
Total liabilities	<u>29,471</u>	<u>833</u>	<u>783</u>	<u>3,493</u>	<u>393,961</u>	<u>428,541</u>
Fund balances						
Reserved for debt service	-	-	-	-	243,646	243,646
Unreserved	168,685	48,638	19,341	16,512	-	253,176
Total fund balances	<u>168,685</u>	<u>48,638</u>	<u>19,341</u>	<u>16,512</u>	<u>243,646</u>	<u>496,822</u>
Total liabilities and fund balances	<u>\$198,156</u>	<u>\$49,471</u>	<u>\$20,124</u>	<u>\$20,005</u>	<u>\$637,607</u>	<u>\$925,363</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets
For the year ended February 29, 2008

Total fund balance - governmental funds	\$496,822
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Amounts reported for governmental activities in the statement of net assets are different because:

Long-term portion of special assessment activity is not available in the current period and therefore are not reported in the funds. That related special assessment activity consists of:

Add: special assessment deferred revenue	400,337
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Internal service funds are used by management to charge the cost of equipment and materials to individual funds.

The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	62,809
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	940,799
Deduct: accumulated depreciation	(555,681)

Net assets of governmental activities	<hr/> <u>\$1,345,086</u>
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The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended February 29, 2008

	Major Funds					Total Governmental Funds
	General	Major Street	Local Street	Police	Debt Service	
Revenues						
Property taxes	\$346,788	-	-	-	-	\$346,788
Special assessments	-	-	-	-	\$115,208	115,208
State shared revenues	151,845	\$77,470	\$27,576	\$743	-	257,634
Charges for services	51,163	-	-	-	74,439	125,602
Interest and rents	6,165	306	803	2,006	8,650	17,930
Grant revenue	82,265	-	-	-	-	82,265
Miscellaneous	19,423	-	-	1,050	-	20,473
Total revenues	<u>657,649</u>	<u>77,776</u>	<u>28,379</u>	<u>3,799</u>	<u>198,297</u>	<u>965,900</u>
Expenditures						
General government	99,859	-	-	-	-	99,859
Public safety	37,009	-	-	122,979	-	159,988
Public works	178,824	132,773	100,683	-	-	412,280
Recreation and culture	4,212	-	-	-	-	4,212
Capital outlay	119,190	-	-	-	-	119,190
Debt service	-	-	-	-	249,495	249,495
Other expenditures	106,876	-	-	-	-	106,876
Total expenditures	<u>545,970</u>	<u>132,773</u>	<u>100,683</u>	<u>122,979</u>	<u>249,495</u>	<u>1,151,900</u>
Excess of revenues over (under) expenditures	111,679	(54,997)	(72,304)	(119,180)	(51,198)	(186,000)
Other financing sources (uses)						
Operating transfers in	-	57,246	11,644	110,000	20,000	198,890
Operating transfers (out)	<u>(147,246)</u>	<u>(11,644)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(158,890)</u>
Total other financing sources (uses)	<u>(147,246)</u>	<u>45,602</u>	<u>11,644</u>	<u>110,000</u>	<u>20,000</u>	<u>40,000</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(35,567)	(9,395)	(60,660)	(9,180)	(31,198)	(146,000)
Fund balance - beginning of year	<u>204,252</u>	<u>58,033</u>	<u>80,001</u>	<u>25,692</u>	<u>274,844</u>	<u>642,822</u>
Fund balance - end of year	<u>\$168,685</u>	<u>\$48,638</u>	<u>\$19,341</u>	<u>\$16,512</u>	<u>\$243,646</u>	<u>\$496,822</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the year ended February 29, 2008

Net change in fund balances - total governmental funds (\$146,000)

Amounts reported for governmental activities in the statement of activities
are different because:

Long-term portion of special assessment activity is not available in the
current period and therefore are not reported in the funds. That
related special assessment activity consists of:

Deduct: special assessment revenue (72,610)

Internal service funds are used by management to charge the cost of
certain activities, such as equipment rents and material usage, to
individual funds. The net revenue of the internal service funds is reported
with governmental activities.

6,465

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated over
their estimated useful lives as depreciation expense.

Add: capital outlay 119,190

Deduct: depreciation expense (31,382)

Change in net assets of governmental activities (\$124,337)

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Combining Statement of Net Assets
Proprietary Funds
February 29, 2008

	Business-Type Activities Enterprise Funds		Total Enterprise Funds	Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund		
Assets				
Cash and cash equivalents	\$97,502	\$146,904	\$244,406	\$63,922
Accounts receivable, net	5,370	8,030	13,400	-
Inventory	-	10,800	10,800	-
 Total current assets	 102,872	 165,734	 268,606	 63,922
Capital assets - depreciable, net	1,360,598	1,422,739	2,783,337	38,672
 Total assets	 \$1,463,470	 \$1,588,473	 \$3,051,943	 \$102,594
Liabilities				
Accounts payable	\$200	\$2,729	\$2,929	-
Accrued wages and other payroll liabilities	136	1,117	1,253	-
Current portion of long-term debt	190,000	-	190,000	\$39,785
 Total current liabilities	 190,336	 3,846	 194,182	 39,785
Bonds payable	970,000	-	970,000	-
 Total liabilities	 1,160,336	 3,846	 1,164,182	 39,785
Net assets				
Invested in capital assets, net of related debt	200,598	1,422,739	1,623,337	(1,113)
Unrestricted	102,536	161,888	264,424	63,922
 Total net assets	 303,134	 1,584,627	 1,887,761	 62,809
 Total liabilities and net assets	 \$1,463,470	 \$1,588,473	 \$3,051,943	 \$102,594

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Combining Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the year ended February 29, 2008

	Business-Type Activities Enterprise Funds		Total Enterprise Funds	Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund		
Operating revenues				
Charges for services	\$44,789	\$69,283	\$114,072	\$67,331
User fees	-	500	500	-
Hydrant rental	-	6,300	6,300	-
Total operating revenues	44,789	76,083	120,872	67,331
Operating expenses				
Salaries and wages	12,388	18,232	30,620	-
Fringe benefits	999	984	1,983	-
Supplies	4,692	21,566	26,258	-
Contracted services	47,493	3,586	51,079	-
Utilities	3,122	9,445	12,567	-
Rentals	-	2,470	2,470	-
Repairs and maintenance	-	1,049	1,049	-
Depreciation	55,664	55,770	111,434	38,142
Miscellaneous	-	623	623	-
Total operating expenses	124,358	113,725	238,083	38,142
Operating income (loss)	(79,569)	(37,642)	(117,211)	29,189
Non-operating revenues (expenses)				
Interest income	3,697	3,678	7,375	303
Interest expense	-	-	-	(3,027)
Other	11,840	8,738	20,578	-
Total non-operating revenues (expenses)	15,537	12,416	27,953	(2,724)
Other financing sources (uses)				
Debt payment between funds	190,000	-	190,000	-
Operating transfers in (out)	(10,000)	(10,000)	(20,000)	(20,000)
Total other financing sources (uses)	180,000	(10,000)	170,000	(20,000)
Net income	115,968	(35,226)	80,742	6,465
Net assets - beginning of year	187,166	1,619,853	1,807,019	56,344
Net assets - end of year	\$303,134	\$1,584,627	\$1,887,761	\$62,809

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Combining Statement of Cash Flows
Proprietary Funds
For the year ended February 29, 2008

	Business-Type Activities Enterprise Funds		Total Enterprise Funds	Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund		
Cash flows from operating activities:				
Receipts from customers	\$44,737	\$76,519	\$121,256	-
Receipts from interfund services provided	-	-	-	\$67,331
Payments to suppliers / outsiders	(55,924)	(37,392)	(93,316)	-
Payments to employees	(13,387)	(18,796)	(32,183)	-
Net cash provided by operating activities	(24,574)	20,331	(4,243)	67,331
Cash flows from non-capital financing activities:				
Debt payment between funds	190,000	-	190,000	-
Operating transfers (out)	(10,000)	(10,000)	(20,000)	(20,000)
Net cash provided by non-capital financing activities	180,000	(10,000)	170,000	(20,000)
Cash flows from capital and related financing activities:				
Purchase of capital assets	(11,000)	-	(11,000)	-
Interest payments	-	-	-	(3,027)
Principal payments	(190,000)	-	(190,000)	(38,300)
Net cash provided by capital and related financing activities	(201,000)	-	(201,000)	(41,327)
Cash flows from investing activities:				
Interest income	3,697	3,678	7,375	303
Other	11,840	8,738	20,578	-
Net cash provided by investing activities	15,537	12,416	27,953	303
Net increase (decrease) in cash and cash equivalents	(30,037)	22,747	(7,290)	6,307
Cash and cash equivalents - beginning of year	127,539	124,157	251,696	57,615
Cash and cash equivalents - end of year	<u>\$97,502</u>	<u>\$146,904</u>	<u>\$244,406</u>	<u>\$63,922</u>
Cash flows from operating activities:				
Income from operations	(\$79,569)	(\$37,642)	(\$117,211)	\$29,189
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	55,664	55,770	111,434	38,142
(Increase) decrease in:				
Accounts receivable	(52)	436	384	-
Increase (decrease) in:				
Accounts payable	76	1,347	1,423	-
Accrued expenses	(693)	420	(273)	-
Other	-	-	-	-
Net cash provided by operating activities	<u>(\$24,574)</u>	<u>\$20,331</u>	<u>(\$4,243)</u>	<u>\$67,331</u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Village of Shepherd (the Village) is a General Law Village incorporated under PA 3 of 1895. The Village operates under a 7-member elected Village Council and provides a wide range of municipal services to Village residents. The accompanying financial statements present the Village and its component units, entities for which the government is considered financially accountable. The reporting entity of the Village excludes the Shepherd Tri-Township Fire Department in accordance with the criteria established by the National Council on Governmental Accounting Statements Number 3. This entity is considered a joint venture of the local units involved.

Jointly Governed Organization

The Village, in conjunction with Coe, Lincoln, and Chippewa Townships, entered into an agreement to operate the Shepherd Tri-Township Fire Department. Its purpose is to provide fire protection to the residents in the tri-township area. The decision to include a potential agency or organization in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Village Statement Number 14.

Based on the application of these criteria, the financial statements of the Shepherd Tri-Township Fire Department, a joint venture which operates autonomously under a service agreement among the participating units, are not included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Village. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Village of Shepherd
Notes To The Financial Statements

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Village's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Exceptions to this general rule include:

- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Village of Shepherd
Notes To The Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Village are charges to customers for water, sewer, and trash services. Operating expenses for the enterprise funds include the cost of administration expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary Fund Financial Statements – Fiduciary funds account for assets held by the Village as a trustee or agency capacity on behalf of others and, therefore, are not available to support Village operations. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements as they are not an asset of the Village available to support Village's operations. The Village currently maintains an agency fund to account for the monies collected and paid to various governmental entities for property tax collections and employee withholdings.

Fund Accounting

The financial activities of the Village are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Village uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the Village that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

General Fund – This fund is the Village's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in other funds.

Village of Shepherd
Notes To The Financial Statements

Special Revenue Funds - The special revenue funds account for the revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

Debt Service Fund – The debt service fund is used to record special assessments collected, interest, and other revenue for payment of principal, interest, and other expenditures on the Storm Water Separation Project debt.

Proprietary Funds

Water and Sewer Funds - These funds report operations that provide water and sewer services which are financed primarily by user charges to external parties, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control, or other purposes.

Internal Service Fund – This fund reports operations that provide services which are financed primarily by user charges to other funds on a cost-reimbursement basis.

Management has decided to classify all governmental and proprietary funds as major funds.

In addition to the governmental and proprietary funds the Village has the following other funds:

Agency Fund

The Village maintains agency funds to account for property tax collections and payroll related withholdings.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

The Village's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Village to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Village is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Village of Shepherd
Notes To The Financial Statements

Property Taxes

The Village's property tax is levied on each July 1st on the taxable valuation of property (as defined by State statutes) located in the Village as of the preceding December 31st.

Taxes are payable to the Village from July 1, to March 1, at which time they are turned over to the County for reimbursement from its revolving tax fund.

It is the Village's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2007 taxable valuation of the Village totaled \$24.4 million, on which ad valorem taxes levied consisted of 12.0 mills for operating purposes and 1.00 mills for highways, raising \$321 thousand for operating purposes, and \$27 thousand for highways. These amounts are recognized in the general fund.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to / from other funds".

Activity between funds that is representative of lending / borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

All trade receivables are shown as net of allowance for uncollectible amounts.

Inventories

Inventories are valued at cost, on a first-in, first-out basis, for the Village's business-type activities. For all other funds, the Village does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Village of Shepherd
Notes To The Financial Statements

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was incurred or capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Village are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land	Not Depreciated
Buildings & Improvements	40 – 50
Machinery & Equipment	5 – 20
Vehicles	7 – 10

Deferred Revenue

Deferred revenues arise when the Village receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Village has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Net Assets and Fund Balances

Restricted net assets shown in the government-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental funds financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

Fund Balances - Reserves and Designations

Fund balances in the governmental funds financial statements are reported as reserved when a portion of fund balance is either:

- Not available for appropriation for expenditure, or
- Legally segregated for a specific future use.

Fund balances in the governmental funds financial statements may be reported as designated to reflect management's self-imposed limitations on the use of otherwise available financial resources. Designations represent management's intended use of resources and should reflect actual plans approved by them.

Village of Shepherd
Notes To The Financial Statements

Net Assets - Restrictions

Net assets in the government-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

Grants

Grants are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Village's financial position and operations. Also, certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

Prior to March 1st a proposed budget for the next fiscal year is prepared and presented to the Village council, along with recommendations. This operating budget includes proposed expenditures and the means of financing them for the fiscal year commencing the following March 1st. The council holds public hearings and final budgets are adopted prior to March 1st.

Prior to March 1st, the budget is legally enacted pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978, as amended).

Village of Shepherd
Notes To The Financial Statements

The Village Treasurer is authorized to transfer budgeted amounts between departments within any fund; however, council must approve any revisions that alter the total expenditures of any fund.

Formal budgetary integration is employed as a management control device during the year. The Village does not maintain a formalized encumbrance accounting system.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is at the function level.

Excess of Expenditures over Appropriations in Budgeted Funds

During the year, the Village incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated. These are shown as negative variances on the budget pages included in this report.

NOTE 3 – DETAILED NOTES

Cash and Cash Equivalents

At February 29th the carrying amount of the Village's cash and cash equivalents are as follows:

Cash and Cash Equivalents	2008	2007
Petty Cash	\$97	\$97
Checking, Savings, & Money Market Accounts	341,406	495,099
Certificates of Deposit	316,417	367,502
Total	\$657,920	\$862,698

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Village's deposits might not be recovered. At February 29, 2008, the carrying amount of the Village's deposits was \$657,920, and the bank balance was \$663,315. Of the bank balance, \$216,210 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Village of Shepherd
Notes To The Financial Statements

Investments

State statutes authorize the Village to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of February 29, 2008, the Village had no such investments.

The Village's investment policy complies with the state statutes and has no additional investment policies that would limit its investment choices.

Interest Rate Risk – Investments

Under state statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Village's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Village will not be able to recover the value of its investments that are in the possession of an outside party. The Village requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Village does not have any additional policies for custodial credit risk over investments.

Credit Risk

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Village's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Village places no limit on the amount it may invest in any one issuer.

Village of Shepherd
Notes To The Financial Statements

Accounts and Assessments Receivable

Accounts and assessments receivable as of February 29th, consists of the following:

Fund / Receivable	2008	2007
General Fund:		
Trash	\$6,351	\$18,166
Special Assessments	6,376	-
Other	202	-
Debt Service Fund – Storm Water Separation Project:		
Special Assessments	505,438	589,851
Water Fund:		
Water Fees	8,030	8,466
Sewer Fund:		
Sewer Fees	5,370	5,318
Total	\$531,767	\$621,801

Due from Other Governmental Units

Due from other governmental units as of February 29th, consists of the following:

Fund / Due From	2008	2007
General Fund:		
County of Isabella – Property Taxes	\$26,075	\$18,665
Major Street:		
State of Michigan	13,917	14,077
Other	858	858
Local Street:		
State of Michigan	4,954	5,012
Debt Service Fund – Storm Water Separation Project:		
County of Isabella – Property Taxes	11,600	9,789
Total	\$57,404	\$48,401

Village of Shepherd
Notes To The Financial Statements

Interfund Receivables, Payables and Transfers

Transfers between funds during the year were as follows:

Receiving Fund	Amount Received	Paying Fund	Amount Paid
Major Street Fund	\$57,246	General Fund	\$42,246
		Internal Service Fund	15,000
Police Fund	110,000	General Fund	105,000
		Internal Service Fund	5,000
Local Street Fund	11,644	Major Street Fund	11,644
Debt Service Fund	20,000	Water Fund	10,000
		Sewer Fund	10,000
Total Interfund Transfers	\$198,890		\$198,890

Transfers are used to provide resources from unrestricted general fund revenues to finance various programs accounted for in other funds, in accordance with budgetary authorizations. In addition, the Major Street Fund is allowed under Act 51 to share a portion of its gas and weight tax revenues with the Local Street Fund. The Water and Sewer Funds transfer amounts to the Debt Service Fund to help cover the cost of the principle and interest on the Storm Water Separation Project Debt.

Village of Shepherd
Notes To The Financial Statements

Capital Assets

Capital assets activity for the year ended February 29, 2008 for the *governmental activities* was as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
CAPITAL ASSETS:				
Land	\$10,000	-	-	\$10,000
Buildings & Improvements	253,800	-	-	253,800
Machinery & Equipment	328,558	\$119,190	-	447,748
Vehicles	457,517	-	-	457,517
Sub-total	1,049,875	119,190	-	1,169,065
ACCUMULATED DEPR:				
Buildings & Improvements	(93,492)	(4,836)	-	(98,328)
Machinery & Equipment	(232,170)	(17,719)	-	(249,889)
Vehicles	(350,089)	(46,969)	-	(397,058)
Sub-total	(675,751)	(69,524)	-	(745,275)
NET CAPITAL ASSETS	\$374,124	\$49,666	-	\$423,790

Capital assets activity for the year ended February 29, 2008 for the *business-type* activities was as follows:

Business-Type	Beginning Balance	Additions	Disposals	Ending Balance
CAPITAL ASSETS:				
Land	\$31,186	-	-	\$31,186
Buildings & Improvements	4,502,350	-	-	4,502,350
Machinery & Equipment	103,397	\$11,000	-	114,397
Sub-total	4,636,933	11,000	-	4,647,933
ACCUMULATED DEPR:				
Buildings & Improvements	(1,690,132)	(109,155)	-	(1,799,287)
Machinery & Equipment	(63,030)	(2,279)	-	(65,309)
Sub-total	(1,753,162)	(111,434)	-	(1,864,596)
NET CAPITAL ASSETS	\$2,883,771	(\$100,434)	-	\$2,783,337

Village of Shepherd
Notes To The Financial Statements

Depreciation expense was charged to programs as follows:

GOVERNMENT ACTIVITIES:	
General Government	\$42,979
Public Safety	2,668
Public Works	23,877
Total Government Activities	69,524
BUSINESS-TYPE ACTIVITIES:	
Water	55,770
Sewer	55,664
Total Business-Type Activities	111,434
Total	\$180,958

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At the end of the current fiscal year the various components of deferred revenue reported in the governmental funds were as follows:

Deferred Revenue	2008	2007
Special Assessments Not Yet Due	\$400,337	\$472,947
Walktrail Grant	-	82,265
Total	\$400,337	\$555,212

Storm Water Separation Project

During the 1994-95 fiscal years the Village of Shepherd contracted with the Isabella County Department of Public Works (DPW) for the construction associated with the improvements of the Sewer Disposal and Water Systems of the Village.

Beginning with the 1994 tax levy, a special assessment was established against Village property owners in order to provide a portion of the funds needed to service the Isabella County DPW loan. The total special assessment principal balance was \$2,493,341, bears an interest rate of 6.87%, and is being assessed over a twenty year period. Property owners were given the option to pay their portion of the assessment in full at any time to avoid additional interest on the assessment. These advance payments have been recorded as deferred revenue for the portion attributable to years after fiscal year ending February 29, 2000. This amount which has been recognized as deferred revenue is then being recognized as revenue proportionately over the remaining life of the deferral.

Village of Shepherd
Notes To The Financial Statements

The remaining portion of the Isabella County DPW loan is serviced by capital surcharges which were added to customers quarterly water bills. The water capital surcharge is 80 cents per 1,000 gallons of water used. The sewer capital surcharge is also 80 cents per 1,000 gallons of water used. Special assessment collection activities and the capital surcharges are accounted for in the Storm Water Separation Project Debt Service Fund.

Long-Term Debt

Capital Lease

On April 10, 2004, the Village entered into a capital lease arrangement for financing several vehicles used to service the Village. At the time of the arrangement, the present value of the minimum lease payments was \$190,710.

The lease agreement qualifies as a capital lease for accounting purposes and, therefore, a capital asset and related capital lease obligation have been recorded at the present value of the minimum lease payments as of the date of the lease. Payments on the lease are made in annual installments of \$41,327 until fiscal year 2009.

Bonds Payable

On January 1, 1999, the Village issued bonds to finance the Waste Water Sanitary Improvement Facility. The value of the bonds issued was \$2,460,000 and is payable in annual installments ranging from \$30,000 to \$210,000 until fiscal year 2015. Interest on the bonds ranges between 4.20% and 4.60%.

Additional information regarding the bonds and the lease can be found in the back of this report.

Compensated Absences

VACATION

Employees are allowed to accumulate and carry forward up to 48 hours of vacation time. Amounts accumulated are to be paid to the employee either when vacation time is actually taken or upon termination of employment. These financial statements do not reflect a liability for unused vacation hours since the amount is not material.

SICK

Sick leave is earned at the rate of 96 hours per year for full-time employees, not to exceed 90 days and a pro-rata number of hours for part-time employees. Upon termination of employment, all sick leave benefits are forfeited. These financial statements do not reflect a liability for unused sick leave hours since they do not vest or accumulate from year to year.

Village of Shepherd
Notes To The Financial Statements

The changes in long-term debt during the fiscal year ended February 29, 2008 are as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital Leases	\$78,085	-	\$38,300	\$39,785	\$39,785
Bonds Payable	\$1,350,000	-	\$190,000	\$1,160,000	\$190,000

The annual requirements to pay principal and interest on the obligations outstanding at February 29, 2008 are as follows. Interest expense totals \$186,347.

For The Fiscal year Ending February 29,	Amount
2008	\$283,092
2009	233,290
2010	225,120
2011	216,760
2012 and thereafter	\$427,870

Joint Venture

The Village is a member of the Shepherd Tri-Township Fire Department, which is a joint venture between the Village and Chippewa, Coe, and Lincoln Townships. All units are located in Isabella County. Each unit names two members and an alternate from its governmental body to serve as the Fire Department's Advisory Board. The Advisory Board is responsible for adopting the annual budget. Under the arrangement, each unit bears its share of the cost according to a formula which takes the ratio of population and state equalized valuation which each unit involved bears to the total population and state equalized valuation of all units and averages the two. Annual contributions are made based upon the budget.

The following financial information of the joint venture was obtained from the audited financial statements of the Shepherd Tri-County Fire Department for the year ended November 30, 2007, the most recent financial statements available:

Total Assets	\$349,550
Total Liabilities	9,586
Total Equity	339,964
Total Revenues	366,724
Total Expenditures	\$206,473

Fixed assets at cost, which are not included in the above numbers, totaled \$1,790,190.

The Village is unaware of any circumstances that would cause it an additional benefit or burden in the near future. Complete financial statements for the year ended November 30, 2007 can be obtained by writing to: Shepherd Tri-Township Fire Department, 410 S. Chippewa Road, Shepherd, Michigan, 48883.

Village of Shepherd
Notes To The Financial Statements

For the Fire Department's year ended November 30, 2007, the share of the annual budget for each participating unit was:

Governmental Unit	Share of Budget
Village of Shepherd	14%
Chippewa Township	45%
Lincoln Township	23%
Coe Township	18%
Total	100%

Pension Plan

Plan Description

The Village of Shepherd participates in the Michigan Municipal Employees Retirement System (MERS), which is an agent multiple-employer public employee retirement system. All full-time employees (excluding officials) of the Village are eligible to participate in the system. General Village and Police Department employees who retire at or after the age of 60 with 10 years of credited service are entitled to retirement benefits payable monthly for life, equal to 1.7% of their final average compensation. Employees who retire at age 55 with 15 or more years of credited service are entitled to reduced benefits. There is no mandatory retirement. Deferred retirement is provided by MERS. MERS also provides for death and disability benefits. Benefits are established by Michigan Public Act 427 of 1984.

Funding Policy

The Village adopted Benefit E for 1989 which provides a one-time benefit increase to present retirees and beneficiaries equal to two percent of the present benefits times the number of years since the later of retirement or the last Benefit E increase (Benefit E may be readapted from time to time). Beginning March 1, 1990 the Village adopted Benefit E-1. This plan provides automatic 2.5% annual non-compounded benefit increases to persons (and their beneficiaries) retired before the effective date of Benefit E-1. Cumulative increases are limited to increases in the consumer price index.

The Village has the responsibility for making actuarially determined contributions to MERS. The required contributions are zero. The employees made contributions of 2% of annual compensation during the fiscal year ended February 29, 2008.

Village of Shepherd
Notes To The Financial Statements

The following table presents information required by GASB Statements Number 25 and 27. This information is as of December 31, 2006.

GASB 25 INFORMATION	
Actuarial Accrued Liability:	
Retirees and Beneficiaries Currently Receiving Benefits	\$103,301
Terminated Employees Not Yet Receiving Benefits	35,338
Non-vested Terminated Employees (pending refunds of accumulated member contributions)	663
Current Employees – Accumulated Employee Contributions Including Allocated Investment Income	25,471
Employer Financed	87,938
Total Actuarial Accrued Liability	252,711
Net Assets Available For Benefits At Actuarial Value (market value \$395,862)	390,401
Unfunded (Overfunded) Actuarial Accrued Liability	(\$137,690)
GASB 27 INFORMATION	
Fiscal Year Beginning	March 1, 2008
Annual Required Contributions (ARC)	\$0
Amortization Factor Used – Underfunded Liabilities (33 years)	.054719
Amortization Factor Used – Underfunded Liabilities (10 years)	.119963

Three year trend information as of December 31st follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Fund Ratio	Covered Payroll	UAAL as a Percentage of Covered payroll
12-31-04	\$347,686	\$196,074	(\$151,612)	177%	\$183,806	82%
12-31-05	365,385	224,930	(140,455)	162%	204,268	69%
12-31-06	390,401	252,711	(137,690)	154%	206,581	67%

Risk Management

The Village is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Village has purchased commercial insurance from independent insurance providers for property loss, professional liability, and employee injuries (worker's compensation).

Settled claims, if any, for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Village of Shepherd
Notes To The Financial Statements

Segment Information

The Village maintains two enterprise funds which provide water and sewer services. Segment information for the year ended February 29, 2008 is as follows:

Net Assets	Sewer Fund	Water Fund
Assets		
Current	\$102,872	\$165,734
Noncurrent	1,360,598	1,422,739
Liabilities		
Current	190,336	3,846
Noncurrent	970,000	-
Net Assets:		
Invested in capital assets, net of related debt	200,598	1,422,739
Unrestricted	\$102,536	\$161,888

Revenues, Expenses, and Changes in Net Assets	Sewer Fund	Water Fund
Operating Revenues	\$44,789	\$76,083
Operating Expenses (less depreciation expense)	68,694	57,955
Depreciation Expense	55,664	55,770
Operating Income Or (Loss)	(79,569)	(37,642)
Nonoperating Revenues	15,537	12,416
Debt payment between funds	190,000	-
Operating Transfers In (Out)	(10,000)	(10,000)
Net Income (Loss)	115,968	(35,226)
Beginning Net Assets	187,166	1,619,853
Ending Net Assets	\$303,134	\$1,584,627

Cash Flows	Sewer Fund	Water Fund
Net Cash Provided (Used) by Operating Activities	(\$24,574)	\$20,331
Net Cash Provided (Used) by Noncapital Financing Activities	180,000	(10,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	(201,000)	-
Net Cash Provided by Investing Activities	15,537	12,416
Beginning Cash and Cash Equivalents	127,539	124,157
Ending Cash and Cash Equivalents	\$97,502	\$146,904

Prior Period Adjustment

The prior period adjustment shown in this report represents the adjustment to net assets due to long-term assessments receivable. Long-term assessments receivable are not available in the current year and are deferred in the fund financial statements. However, these long-term assessments receivable are considered available in the government-wide financial statements and therefore the deferral has been effectively removed from those statements.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE



Village of Shepherd
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the year ended February 29, 2008

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	\$333,529	\$333,529	\$346,788	\$13,259
Special assessments	-	-	-	-
State shared revenues	155,000	155,000	151,845	(3,155)
Charges for services	51,878	51,878	51,163	(715)
Interest and rents	1,500	1,500	6,165	4,665
Grant revenue	82,265	82,265	82,265	-
Miscellaneous	15,000	15,000	19,423	4,423
Total revenues	639,172	639,172	657,649	18,477
Expenditures				
General government	104,337	103,276	99,859	3,417
Public safety	55,314	47,009	37,009	10,000
Public works	180,370	197,300	178,824	18,476
Recreation and culture	5,000	4,717	4,212	505
Capital outlay	27,000	108,825	119,190	(10,365)
Debt service	-	-	-	-
Other expenditures	112,416	112,416	106,876	5,540
Total expenditures	484,437	573,543	545,970	27,573
Excess of revenues over (under) expenditures	154,735	65,629	111,679	46,050
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers (out)	(130,656)	(130,656)	(147,246)	(16,590)
Total other financing sources (uses)	(130,656)	(130,656)	(147,246)	(16,590)
Excess of revenues and other sources over (under) expenditures and other uses	24,079	(65,027)	(35,567)	29,460
Fund balance, beginning of year	204,252	204,252	204,252	-
Fund balance, end of year	<u>\$228,331</u>	<u>\$139,225</u>	<u>\$168,685</u>	<u>\$29,460</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Major Street Fund
For the year ended February 29, 2008

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	-	-	-	-
Special assessments	-	-	-	-
State shared revenues	\$78,000	\$78,000	\$77,470	(\$530)
Charges for services	-	-	-	-
Interest and rents	600	600	306	(294)
Grant revenue	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	78,600	78,600	77,776	(824)
Expenditures				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	75,708	144,930	132,773	12,157
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Other expenditures	-	-	-	-
Total expenditures	75,708	144,930	132,773	12,157
Excess of revenues over (under) expenditures	2,892	(66,330)	(54,997)	11,333
Other financing sources (uses)				
Operating transfers in	25,656	55,656	57,246	1,590
Operating transfers (out)	(11,700)	(11,644)	(11,644)	-
Total other financing sources (uses)	13,956	44,012	45,602	1,590
Excess of revenues and other sources over (under) expenditures and other uses	16,848	(22,318)	(9,395)	12,923
Fund balance, beginning of year	58,033	58,033	58,033	-
Fund balance, end of year	<u>\$74,881</u>	<u>\$35,715</u>	<u>\$48,638</u>	<u>\$12,923</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Local Street Fund
For the year ended February 29, 2008

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	-	-	-	-
Special assessments	-	-	-	-
State shared revenues	\$28,000	\$28,000	\$27,576	(\$424)
Charges for services	-	-	-	-
Interest and rents	500	500	803	303
Grant revenue	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	28,500	28,500	28,379	(121)
Expenditures				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	92,201	101,293	100,683	610
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Other expenditures	-	-	-	-
Total expenditures	92,201	101,293	100,683	610
Excess of revenues over (under) expenditures	(63,701)	(72,793)	(72,304)	489
Other financing sources (uses)				
Operating transfers in	11,700	11,644	11,644	-
Operating transfers (out)	-	-	-	-
Other financing sources (uses)	11,700	11,644	11,644	-
Excess of revenues and other sources over (under) expenditures and other uses	(52,001)	(61,149)	(60,660)	489
Fund balance, beginning of year	80,001	80,001	80,001	-
Fund balance, end of year	<u>\$28,000</u>	<u>\$18,852</u>	<u>\$19,341</u>	<u>\$489</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Police Fund
For the year ended February 29, 2008

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	-	-	-	-
Special assessments	-	-	-	-
State shared revenues	\$650	\$650	\$743	\$93
Charges for services	-	-	-	-
Interest and rents	500	500	2,006	1,506
Grant revenue	-	-	-	-
Miscellaneous	10,275	10,275	1,050	(9,225)
Total revenues	11,425	11,425	3,799	(7,626)
Expenditures				
General government	-	-	-	-
Public safety	129,107	129,607	122,979	6,628
Public works	-	-	-	-
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Other expenditures	-	-	-	-
Total expenditures	129,107	129,607	122,979	6,628
Excess of revenues over (under) expenditures	(117,682)	(118,182)	(119,180)	(998)
Other financing sources (uses)				
Operating transfers in	110,000	110,000	110,000	-
Operating transfers (out)	-	-	-	-
Total other financing sources (uses)	110,000	110,000	110,000	-
Excess of revenues and other sources over (under) expenditures and other uses	(7,682)	(8,182)	(9,180)	(998)
Fund balance, beginning of year	25,692	25,692	25,692	-
Fund balance, end of year	<u>\$18,010</u>	<u>\$17,510</u>	<u>\$16,512</u>	<u>(\$998)</u>

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

INDIVIDUAL FUND STATEMENTS

SCHEDULE OF LONG-TERM DEBT



Village of Shepherd
Balance Sheet
General Fund
February 29, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents	\$159,152	\$256,492
Accounts receivable, net	12,929	18,166
Due from other governmental units	<u>26,075</u>	<u>18,665</u>
Total assets	<u><u>\$198,156</u></u>	<u><u>\$293,323</u></u>
Liabilities		
Accounts payable	\$19,180	\$4,118
Accrued wages and other payroll liabilities	3,915	2,688
Deferred revenue	<u>6,376</u>	<u>82,265</u>
Total liabilities	<u>29,471</u>	<u>89,071</u>
Fund balance		
Unreserved, undesignated	<u>168,685</u>	<u>204,252</u>
Total fund balance	<u>168,685</u>	<u>204,252</u>
Total liabilities and fund balance	<u><u>\$198,156</u></u>	<u><u>\$293,323</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund
For The Years Ended February 29, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenues		
Property taxes	\$346,788	\$340,475
State shared revenues	151,845	155,334
Charges for services	51,163	60,468
Interest and rents	6,165	2,469
Grant revenue	82,265	-
Miscellaneous	<u>19,423</u>	<u>19,041</u>
Total revenues	<u>657,649</u>	<u>577,787</u>
Expenditures		
General government	99,859	115,323
Public safety	37,009	52,200
Public works	178,824	169,104
Recreation and culture	4,212	3,218
Other expenditures	106,876	101,085
Capital outlay	<u>119,190</u>	<u>3,780</u>
Total expenditures	<u>545,970</u>	<u>444,710</u>
Excess of revenues over (under) expenditures	<u>111,679</u>	<u>133,077</u>
Other financing sources (uses)		
Operating transfers in	-	-
Operating transfers out	<u>(147,246)</u>	<u>(134,487)</u>
Total other financing sources (uses)	<u>(147,246)</u>	<u>(134,487)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(35,567)	(1,410)
Fund balance, beginning of year	<u>204,252</u>	<u>205,662</u>
Fund balance, end of year	<u><u>\$168,685</u></u>	<u><u>\$204,252</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Expenditures
General Fund
For The Years Ended February 29, 2008 and 2007

General government	<u>2008</u>	<u>2007</u>
Legislative		
Village council		
Salaries and wages	\$18,675	\$29,364
Training and education	599	150
Printing and publishing	3,484	2,918
Dues and subscriptions	1,780	1,603
Miscellaneous	295	246
	<u>24,833</u>	<u>34,281</u>
Village Manager		
Salaries and wages	-	820
Elections board		
Printing and supplies	300	300
Assessor and building inspector		
Salaries and wages	600	600
Legal and professional		
Contracted services	10,610	10,650
Clerk and treasurer		
Salaries and wages	27,595	26,274
Office supplies	2,994	2,642
Contracted services	1,689	1,466
Communications	2,213	2,168
Miscellaneous	5,485	65
	<u>39,976</u>	<u>32,615</u>
Building and grounds		
Operating supplies	3,989	15,543
Repairs and maintenance	3,162	3,361
Communications	4,154	4,444
Utilities	10,007	8,989
Contracted services	1,218	1,070
Miscellaneous	1,010	2,650
	<u>23,540</u>	<u>36,057</u>
Total general government	<u>99,859</u>	<u>115,323</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Expenditures
General Fund
For The Years Ended February 29, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Public safety		
Fire Department		
Salaries and wages	\$9,695	\$2,284
Contracted services	<u>27,314</u>	<u>49,916</u>
	<u>37,009</u>	<u>52,200</u>
Public works		
Salaries and wages	43,573	40,483
Supplies	20,989	7,960
Contracted services	90	4,290
Repairs	7,305	5,533
Trash	54,167	55,184
Equipment rental	30,095	34,561
Miscellaneous	-	750
Utilities	<u>22,605</u>	<u>20,343</u>
	<u>178,824</u>	<u>169,104</u>
Recreational and cultural		
City park		
Salaries and wages	2,949	2,485
Supplies	945	295
Utilities	158	38
Equipment rental	<u>160</u>	<u>400</u>
	<u>4,212</u>	<u>3,218</u>
Other expenditures		
Employee insurances and fringes	57,626	51,895
Insurance	40,582	39,661
Payroll taxes	8,668	9,417
Other	<u>-</u>	<u>112</u>
	<u>106,876</u>	<u>101,085</u>
Capital outlay	<u>119,190</u>	<u>3,780</u>
Total expenditures	<u><u>\$545,970</u></u>	<u><u>\$444,710</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Combining Balance Sheet
Special Revenue Funds
February 29, 2008

	Major Street	Local Street	Police	Total
Assets				
Cash and cash equivalents	\$34,696	\$15,170	\$20,005	\$69,871
Accounts receivable, net	-	-	-	-
Due from other governmental units	14,775	4,954	-	19,729
Total assets	<u>\$49,471</u>	<u>\$20,124</u>	<u>\$20,005</u>	<u>\$89,600</u>
Liabilities				
Accounts payable	\$456	\$583	\$883	\$1,922
Accrued wages and other payroll liabilities	377	200	2,610	3,187
Total liabilities	<u>833</u>	<u>783</u>	<u>3,493</u>	<u>5,109</u>
Fund balances				
Unreserved	<u>48,638</u>	<u>19,341</u>	<u>16,512</u>	<u>84,491</u>
Total fund balances	<u>48,638</u>	<u>19,341</u>	<u>16,512</u>	<u>84,491</u>
Total liabilities and fund balances	<u>\$49,471</u>	<u>\$20,124</u>	<u>\$20,005</u>	<u>\$89,600</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Special Revenue Funds
For The Year Ended February 29, 2008

	Major Street	Local Street	Police	Total
Revenues				
State shared revenues	\$77,470	\$27,576	\$743	\$105,789
Miscellaneous	-	-	1,050	1,050
Interest and rents	306	803	2,006	3,115
Total revenues	77,776	28,379	3,799	109,954
Expenditures				
Salaries and wages	23,650	14,087	69,749	107,486
Fringe benefits	1,694	1,466	26,669	29,829
Supplies	9,837	5,835	3,234	18,906
Gasoline	-	-	4,095	4,095
Contracted services	75,825	67,054	6,908	149,787
Auto	-	-	-	-
Communications	-	-	3,557	3,557
Utilities	17	-	-	17
Rentals	17,110	11,343	-	28,453
Repairs and maintenance	4,640	898	-	5,538
Equipment	-	-	-	-
Grant expenditures	-	-	7,502	7,502
Miscellaneous	-	-	1,265	1,265
Total expenditures	132,773	100,683	122,979	356,435
Excess of revenues over (under) expenditures	(54,997)	(72,304)	(119,180)	(246,481)
Other financing sources (uses)				
Operating transfers in	57,246	11,644	110,000	178,890
Operating transfers (out)	(11,644)	-	-	(11,644)
Total other financing sources (uses)	45,602	11,644	110,000	167,246
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(9,395)	(60,660)	(9,180)	(79,235)
Fund balance, beginning of year	58,033	80,001	25,692	163,726
Fund balance, end of year	<u>\$48,638</u>	<u>\$19,341</u>	<u>\$16,512</u>	<u>\$84,491</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Balance Sheet
Major Street Fund
February 29, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents	\$34,696	\$44,021
Due from other governmental units	<u>14,775</u>	<u>14,935</u>
Total assets	<u><u>\$49,471</u></u>	<u><u>\$58,956</u></u>
Liabilities		
Accounts payable	\$456	\$17
Accrued wages and other payroll liabilities	<u>377</u>	<u>906</u>
Total liabilities	<u>833</u>	<u>923</u>
Fund balance		
Unreserved	<u>48,638</u>	<u>58,033</u>
Total fund balance	<u>48,638</u>	<u>58,033</u>
Total liabilities and fund balance	<u><u>\$49,471</u></u>	<u><u>\$58,956</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenditures and Changes in Fund Balance
Major Street Fund
For The Years Ended February 29, 2008 and 2007

	2008	2007
Revenues		
State shared revenues	\$77,470	\$77,956
Interest and rents	306	600
Total revenues	<u>77,776</u>	<u>78,556</u>
Expenditures		
Salaries and wages	23,650	13,406
Fringe benefits	1,694	926
Supplies	9,837	3,096
Contracted services	75,825	25,598
Utilities	17	191
Rentals	17,110	13,041
Repairs and maintenance	<u>4,640</u>	<u>855</u>
Total expenditures	<u>132,773</u>	<u>57,113</u>
Excess of revenues over (under) expenditures	(54,997)	21,443
Other financing sources (uses)		
Operating transfers in	57,246	24,487
Operating transfers (out)	<u>(11,644)</u>	<u>(19,526)</u>
Total other financing sources (uses)	<u>45,602</u>	<u>4,961</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(9,395)	26,404
Fund balance, beginning of year	<u>58,033</u>	<u>31,629</u>
Fund balance, end of year	<u><u>\$48,638</u></u>	<u><u>\$58,033</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Balance Sheet
Local Street Fund
February 29, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents	\$15,170	\$75,481
Due from other governmental units	<u>4,954</u>	<u>5,012</u>
Total assets	<u><u>\$20,124</u></u>	<u><u>\$80,493</u></u>
Liabilities		
Accounts payable	\$583	-
Accrued wages and other payroll liabilities	<u>200</u>	<u>\$492</u>
Total liabilities	<u>783</u>	<u>492</u>
Fund balance		
Unreserved	<u>19,341</u>	<u>80,001</u>
Total fund balance	<u>19,341</u>	<u>80,001</u>
Total liabilities and fund balance	<u><u>\$20,124</u></u>	<u><u>\$80,493</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenditures and Changes in Fund Balance
Local Street Fund
For The Years Ended February 29, 2008 and 2007

	2008	2007
Revenues		
State shared revenues	\$27,576	\$27,757
Interest and rents	803	1,238
Miscellaneous	-	1,438
	<u>28,379</u>	<u>30,433</u>
Expenditures		
Salaries and wages	14,087	9,663
Fringe benefits	1,466	650
Supplies	5,835	3,315
Contracted services	67,054	-
Rentals	11,343	6,144
Repairs and maintenance	898	458
	<u>100,683</u>	<u>20,230</u>
Excess of revenues over (under) expenditures	(72,304)	10,203
Other financing sources (uses)		
Operating transfers in	11,644	19,526
	<u>11,644</u>	<u>19,526</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(60,660)	29,729
Fund balance, beginning of year	80,001	50,272
Fund balance, end of year	<u>\$19,341</u>	<u>\$80,001</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Balance Sheet
Police Fund
February 29, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents	\$20,005	\$29,242
Due from other governmental units	<u>-</u>	<u>-</u>
Total assets	<u><u>\$20,005</u></u>	<u><u>\$29,242</u></u>
Liabilities		
Accounts payable	\$883	\$1,043
Accrued wages and other payroll liabilities	<u>2,610</u>	<u>2,507</u>
Total liabilities	<u>3,493</u>	<u>3,550</u>
Fund balance		
Unreserved	<u>16,512</u>	<u>25,692</u>
Total fund balance	<u>16,512</u>	<u>25,692</u>
Total liabilities and fund balance	<u><u>\$20,005</u></u>	<u><u>\$29,242</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenditures and Changes in Fund Balance
Police Fund
For The Years Ended February 29, 2008 and 2007

	2008	2007
Revenues		
State shared revenues	\$743	\$634
Miscellaneous	1,050	696
Interest and rents	2,006	3,125
Total revenues	3,799	4,455
Expenditures		
Salaries and wages	69,749	64,349
Fringe benefits	26,669	23,450
Supplies	3,234	1,718
Gasoline	4,095	3,526
Contracted services	6,908	6,937
Auto	-	3,413
Telephone	1,851	1,715
Radio	1,706	1,712
Education and training	285	100
Other	980	-
Equipment	-	18,673
Saginaw Chippewa grant expenditures	7,502	7,185
Total expenditures	122,979	132,778
Excess of revenues over (under) expenditures	(119,180)	(128,323)
Other financing sources (uses)		
Gain (loss) on disposal of fixed assets	-	3,500
Operating transfers in	110,000	110,000
Total other financing sources (uses)	110,000	113,500
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(9,180)	(14,823)
Fund balance, beginning of year	25,692	40,515
Fund balance, end of year	<u>\$16,512</u>	<u>\$25,692</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Balance Sheet
Storm Water Separation Project Debt Service Fund
February 29, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Current assets		
Cash and cash equivalents	\$120,569	\$148,151
Special assessments receivable	111,477	116,904
Due from other governmental units	<u>11,600</u>	<u>9,789</u>
Total current assets	243,646	274,844
Long-term assets		
Special assessments receivable	<u>393,961</u>	<u>472,947</u>
Total assets	<u><u>\$637,607</u></u>	<u><u>\$747,791</u></u>
Liabilities		
Long-term liabilities		
Deferred special assessments revenue	<u>\$393,961</u>	<u>\$472,947</u>
Total liabilities	<u>393,961</u>	<u>472,947</u>
Fund balance		
Reserved for debt retirement	<u>243,646</u>	<u>274,844</u>
Total fund balance	<u>243,646</u>	<u>274,844</u>
Total liabilities and fund balance	<u><u>\$637,607</u></u>	<u><u>\$747,791</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenditures and Changes in Fund Balance
Storm Water Separation Project Debt Service Fund
For The Years Ended February 29, 2008 and 2007

	2008	2007
Revenues		
Special assessments	\$115,208	\$146,106
Charges for services	74,439	75,768
Interest and rents	8,650	8,551
	<hr/>	<hr/>
Total revenues	198,297	230,425
	<hr/>	<hr/>
Expenditures		
Principal payments	190,000	180,000
Interest	59,345	67,325
Miscellaneous	150	300
	<hr/>	<hr/>
Total expenditures	249,495	247,625
	<hr/>	<hr/>
Excess of revenues over (under) expenditures	(51,198)	(17,200)
	<hr/>	<hr/>
Other financing sources (uses)		
Operating transfers in	20,000	20,000
	<hr/>	<hr/>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(31,198)	2,800
	<hr/>	<hr/>
Fund balance, beginning of year	274,844	272,044
	<hr/>	<hr/>
Fund balance, end of year	<u>\$243,646</u>	<u>\$274,844</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Net Assets
Sewer Fund
February 29, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents	\$97,502	\$127,539
Accounts receivable, net	<u>5,370</u>	<u>5,318</u>
Total current assets	<u>102,872</u>	<u>132,857</u>
Capital assets - depreciable, net	<u>1,360,598</u>	<u>1,405,262</u>
Total assets	<u><u>\$1,463,470</u></u>	<u><u>\$1,538,119</u></u>
Liabilities		
Accounts payable	\$200	\$124
Accrued wages and other payroll liabilities	136	829
Current portion of long-term debt	<u>190,000</u>	<u>190,000</u>
Total current liabilities	<u>190,336</u>	<u>190,953</u>
Bonds payable	<u>970,000</u>	<u>1,160,000</u>
Total liabilities	<u>1,160,336</u>	<u>1,350,953</u>
Net assets		
Invested in capital assets, net of related debt	200,598	55,262
Unrestricted	<u>102,536</u>	<u>131,904</u>
Total net assets	<u>303,134</u>	<u>187,166</u>
Total liabilities and net assets	<u><u>\$1,463,470</u></u>	<u><u>\$1,538,119</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenses and Changes in Net Assets
Sewer Fund
For the years ended February 29, 2008 and 2007

	2008	2007
Operating revenues		
Charges for services	\$44,789	\$39,759
User fees	-	105
Total operating revenues	44,789	39,864
Operating expenses		
Salaries and wages	12,388	10,905
Fringe benefits	999	797
Supplies	4,692	3,705
Contracted services	47,493	9,993
Utilities	3,122	2,912
Depreciation	55,664	55,590
Total operating expenses	124,358	83,902
Operating income (loss)	(79,569)	(44,038)
Non-operating revenues (expenses)		
Interest income	3,697	4,125
Other	11,840	166
Total non-operating revenues (expenses)	15,537	4,291
Other financing sources (uses)		
Debt payment between funds	190,000	190,000
Operating transfers (out)	(10,000)	(10,000)
Total other financing sources (uses)	180,000	180,000
Net income	115,968	140,253
Net assets - beginning of year	187,166	46,913
Net assets - end of year	\$303,134	\$187,166

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Cash Flows
Sewer Fund
For the years ended February 29, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Receipts from customers	\$44,737	\$42,077
Payments to suppliers / outsiders	(55,924)	(16,128)
Payments to employees	(13,387)	(11,702)
Net cash provided by operating activities	(24,574)	14,247
Cash flows from non-capital financing activities:		
Debt payment between funds	190,000	190,000
Operating transfers (out)	(10,000)	(10,000)
Net cash provided by non-capital financing activities	180,000	180,000
Cash flows from capital and related financing activities:		
Purchase of capital assets	(11,000)	-
Principal payments	(190,000)	(190,000)
Net cash provided by capital and related financing activities	(201,000)	(190,000)
Cash flows from investing activities:		
Interest income	3,697	4,125
Other	11,840	166
Net cash provided by investing activities	15,537	4,291
Net increase (decrease) in cash and cash equivalents	(30,037)	8,538
Cash and cash equivalents - beginning of year	127,539	119,001
Cash and cash equivalents - end of year	<u>\$97,502</u>	<u>\$127,539</u>
Cash flows from operating activities:		
Income from operations	(\$79,569)	(\$44,038)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	55,664	55,590
(Increase) decrease in:		
Accounts receivable	(52)	2,213
Increase (decrease) in:		
Accounts payable	76	(11)
Accrued expenses	(693)	493
Net cash provided by operating activities	<u>(\$24,574)</u>	<u>\$14,247</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Net Assets
Water Fund
February 29, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents	\$146,904	\$124,157
Accounts receivable, net	8,030	8,466
Inventory	10,800	10,800
	<u>165,734</u>	<u>143,423</u>
Total current assets		
	<u>165,734</u>	<u>143,423</u>
Capital assets - depreciable, net	1,422,739	1,478,509
	<u>1,422,739</u>	<u>1,478,509</u>
Total assets	<u>\$1,588,473</u>	<u>\$1,621,932</u>
Liabilities		
Accounts payable	\$2,729	\$1,382
Accrued wages and other payroll liabilities	1,117	697
	<u>3,846</u>	<u>2,079</u>
Total liabilities		
	<u>3,846</u>	<u>2,079</u>
Net assets		
Invested in capital assets, net of related debt	1,422,739	1,478,509
Unrestricted	161,888	141,344
	<u>1,584,627</u>	<u>1,619,853</u>
Total net assets		
	<u>1,584,627</u>	<u>1,619,853</u>
Total liabilities and net assets	<u>\$1,588,473</u>	<u>\$1,621,932</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenses and Changes in Net Assets
Water Fund
For the years ended February 29, 2008 and 2007

	2008	2007
Operating revenues		
Service charges	\$69,283	\$64,355
User fees	500	575
Hydrant rental	6,300	6,200
Total operating revenues	76,083	71,130
Operating expenses		
Salaries and wages	18,232	22,729
Fringe benefits	984	1,711
Supplies	21,566	15,303
Contracted services	3,586	10,367
Rentals	2,470	5,180
Repairs	1,049	9,519
Utilities	9,445	8,764
Depreciation	55,770	55,770
Miscellaneous	623	4,828
Total operating expenses	113,725	134,171
Operating income (loss)	(37,642)	(63,041)
Non-operating revenues (expenses)		
Interest income	3,678	3,808
Other	8,738	8,485
Total non-operating revenues (expenses)	12,416	12,293
Other financing sources (uses)		
Operating transfers (out)	(10,000)	(10,000)
Net income (loss)	(35,226)	(60,748)
Net assets - beginning of year	1,619,853	1,680,601
Net assets - end of year	<u>\$1,584,627</u>	<u>\$1,619,853</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Cash Flows
Water Fund
For the years ended February 29, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Receipts from customers	\$76,519	\$74,342
Payments to suppliers / outsiders	(37,392)	(54,337)
Payments to employees	(18,796)	(24,075)
Net cash provided by operating activities	20,331	(4,070)
Cash flows from non-capital financing activities:		
Operating transfers (out)	(10,000)	(10,000)
Net cash provided by non-capital financing activities	(10,000)	(10,000)
Cash flows from investing activities:		
Interest income	3,678	3,808
Other	8,738	8,485
Net cash provided by investing activities	12,416	12,293
Net increase (decrease) in cash and cash equivalents	22,747	(1,777)
Cash and cash equivalents - beginning of year	124,157	125,934
Cash and cash equivalents - end of year	<u>\$146,904</u>	<u>\$124,157</u>
Cash flows from operating activities:		
Income from operations	(\$37,642)	(\$63,041)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	55,770	55,770
(Increase) decrease in:		
Accounts receivable	436	3,212
Increase (decrease) in:		
Accounts payable	1,347	(376)
Accrued expenses	420	365
Net cash provided by operating activities	<u>\$20,331</u>	<u>(\$4,070)</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Net Assets
Internal Service Fund
February 29, 2008

	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents	<u>\$63,922</u>	<u>\$57,615</u>
Total current assets	<u>63,922</u>	<u>57,615</u>
Capital assets - depreciable, net	<u>38,672</u>	<u>76,814</u>
Total assets	<u><u>\$102,594</u></u>	<u><u>\$134,429</u></u>
Liabilities		
Current portion of long-term debt	<u>\$39,785</u>	<u>\$38,300</u>
Total current liabilities	<u>39,785</u>	<u>38,300</u>
Capital lease	<u>-</u>	<u>39,785</u>
Total liabilities	<u>39,785</u>	<u>78,085</u>
Net assets		
Unrestricted	<u>62,809</u>	<u>56,344</u>
Total net assets	<u>62,809</u>	<u>56,344</u>
Total liabilities and net assets	<u><u>\$102,594</u></u>	<u><u>\$134,429</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenses and Changes in Net Assets
Internal Service Fund
For the year ended February 29, 2008

	<u>2008</u>	<u>2007</u>
Operating revenues		
Service charges	<u>\$67,331</u>	<u>\$61,704</u>
Total operating revenues	<u>67,331</u>	<u>61,704</u>
Operating expenses		
Depreciation	<u>38,142</u>	<u>38,142</u>
Total operating expenses	<u>38,142</u>	<u>38,142</u>
Operating income (loss)	29,189	23,562
Non-operating revenues (expenses)		
Interest expense	(3,027)	(5,022)
Interest income	<u>303</u>	<u>411</u>
Total non-operating revenues (expenses)	(2,724)	(4,611)
Other financing sources (uses)		
Operating transfers out	<u>(20,000)</u>	<u>-</u>
Net income (loss)	6,465	18,951
Net assets - beginning of year	56,344	45,400
Prior period adjustment	<u>-</u>	<u>(8,007)</u>
Net assets - end of year	<u><u>\$62,809</u></u>	<u><u>\$56,344</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Cash Flows
Internal Service Fund
For the year ended February 29, 2008

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts from interfund services provided	<u>\$67,331</u>	<u>\$61,704</u>
Net cash provided by operating activities	<u>67,331</u>	<u>61,704</u>
Cash flows from capital and related financing activities:		
Principal payments	(38,300)	(44,878)
Interest expense	<u>(3,027)</u>	<u>(5,022)</u>
Net cash from capital and related financing activities	<u>(41,327)</u>	<u>(49,900)</u>
Cash flows from non-capital financing activities		
Operating transfers (out)	<u>(20,000)</u>	<u>-</u>
Net cash used by non-capital financing activities	<u>(20,000)</u>	<u>-</u>
Cash flows from investing activities:		
Interest income	<u>303</u>	<u>411</u>
Net cash provided by investing activities	<u>303</u>	<u>411</u>
Net increase (decrease) in cash and cash equivalents	6,307	12,215
Cash and cash equivalents - beginning of year	<u>57,615</u>	<u>45,400</u>
Cash and cash equivalents - end of year	<u><u>\$63,922</u></u>	<u><u>\$57,615</u></u>
Cash flows from operating activities:		
Income from operations	\$29,189	\$23,562
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	<u>38,142</u>	<u>38,142</u>
Net cash provided by operating activities	<u><u>\$67,331</u></u>	<u><u>\$61,704</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Fiduciary Net Assets
Fiduciary Funds
February 29, 2008 and 2007

AGENCY FUND

	<u>2008</u>	<u>2007</u>
Assets		
Cash - tax account	<u>\$1,238</u>	<u>\$864</u>
Total assets	<u><u>\$1,238</u></u>	<u><u>\$864</u></u>
Liabilities		
Due to others	<u>\$1,238</u>	<u>\$864</u>
Total liabilities	<u>1,238</u>	<u>864</u>
Net assets	<u>-</u>	<u>-</u>
Total liabilities and net assets	<u><u>\$1,238</u></u>	<u><u>\$864</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Schedule of Long-Term Debt
For The Year Ended February 29, 2008

Maturity Date	Interest Rate (%)	Maturing Per Year	Outstanding March 1, 2007	Retired	Outstanding February 29, 2008
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Capital Leases

**Isabella County - Shepherd Sanitary Sewer / Storm Water Separation Project Refunding Bonds
Series 1999**

Due March 1,

1999	4.20	-	-	-	-
2000	4.20	\$30,000	-	-	-
2001	4.20	30,000	-	-	-
2002	4.20	160,000	-	-	-
2003	4.20	160,000	-	-	-
2004	4.20	180,000	-	-	-
2005	4.20	180,000	-	-	-
2006	4.20	180,000	-	-	-
2007	4.20	190,000	-	-	-
2008	4.20	190,000	\$190,000	\$190,000	-
2009	4.25	190,000	190,000	-	\$190,000
2010	4.30	190,000	190,000	-	190,000
2011	4.40	190,000	190,000	-	190,000
2012	4.50	190,000	190,000	-	190,000
2013	4.50	190,000	190,000	-	190,000
2014	4.60	210,000	210,000	-	210,000

Totals		<u>\$2,460,000</u>	<u>\$1,350,000</u>	<u>\$190,000</u>	<u>\$1,160,000</u>
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Maturities on March 1, 2006 or prior - non-callable.

Maturities after March 1, 2006 - redeemed at par.

Vehicle Leases

Due June 1,

2004	3.88	\$40,259	-	-	-
2005	3.88	35,495	-	-	-
2006	3.88	36,871	-	-	-
2007	3.88	38,300	\$38,300	\$38,300	-
2008	3.88	39,785	39,785	-	\$39,785

Totals		<u>\$190,710</u>	<u>\$78,085</u>	<u>\$38,300</u>	<u>\$39,785</u>
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The notes to the financial statements are an integral part of this statement.



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Village Council
Village of Shepherd
Shepherd, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Shepherd as of and for the year ended February 29, 2008, which collectively comprise the Village of Shepherd's basic financial statements and have issued our report thereon dated May 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village of Shepherd's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described as 2008-1 and 2008-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above as 2008-1 and 2008-2 are not material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Shepherd's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to management in a separate letter dated May 27, 2008.

The Village of Shepherd's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Village's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of management, Village Council, federal awarding agencies, pass-through entities and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C.".

Roslund, Prestage & Company, P.C.
Certified Public Accountants

May 27, 2008

Village of Shepherd
Schedule of Findings and Responses

Finding 2008-1

Finding considered a significant deficiency

Effective for the year ended February 29, 2008, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* requires us to communicate in writing when a client requires assistance to prepare the financial statements and related footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The annual financial statements for the year ended February 29, 2008 required numerous audit adjustments, most of which the staff was aware needed to be recorded. The staff of the Village does understand all information included in the annual financial statements; however, we assist in preparing the financial statements and related footnotes.

We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We expect this situation to be ongoing in future years.

Finding 2008-2

Finding considered a significant deficiency

The Village currently has an informal policy that requires someone other than the preparer (other staff members or members of the village council) review all completed bank reconciliations on a monthly basis. This procedure is performed sporadically and is not well documented.

Internal control is most effective when the bank reconciliations are prepared by someone not responsible for entries in the receipts and disbursements records. Inasmuch as this is difficult because of the small number of office employees, we recommend that this review procedure be incorporated into the formal accounting policies and performed monthly. This review should include scanning the reconciling items for any unusual items and tracing the reconciled balance to the financial statements.

At the same time we also recommend that the reviewer open the bank statements and review them for any unusual transactions. The review of the bank statement will ensure that unusual items are investigated on a timely basis.

Village of Shepherd
Schedule of Findings and Responses

All reconciliations should be signed and dated by individuals preparing them as well as by the reviewers. As a prompt to the preparer and reviewer/approver to sign the reconciliation, preprinted reconciliation forms could include a signature block with space for the signatures, or a stamp with a signature block could be applied to the reconciliations.

Client Response

We are aware of this deficiency and we are in the process of establishing formal procedures and incorporating these procedures into our accounting policies as recommend.



MANAGEMENT LETTER

Members of the Village Council
Village of Shepherd
Shepherd, Michigan

In planning and performing our audit of the financial statements for the Village of Shepherd for the fiscal year ended February 29, 2008, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated May 27, 2008 on the financial statements of the Village of Shepherd.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

May 27, 2008

Village of Shepherd
February 29, 2008

STATUS OF PRIOR YEAR COMMENTS AND RECOMMENDATIONS

We were pleased to see that management has implemented many of the recommendations we included in our previously issued Management Letter. We commend you on your efforts to strengthen internal controls and operating efficiencies.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Have Management Review and Approve Bank Statements and Reconciliations

During our audit we noted that accounting personnel perform bank statement reconciliations. We recommend that management open the bank statements and review them for any unusual checks or other transactions before giving them to accounting personnel to perform the reconciliation. Then, after the bank reconciliation is completed, we recommend that management review the reconciliations for any unusual items. Once these reviews are completed, the bank statements and reconciliations should be initialed by the reviewer as evidence that the review had taken place. Management's review of the bank statements and reconciliations will ensure that unusual items are investigated on a timely basis.

Disbursement System

We noted during our review of the disbursements system that several payments were made from credit card statements with no supporting invoices. We recommend that payments be made only when invoices are available for review. This will allow the Village to reduce opportunities for fraudulent purchases, as a statement often will not provide a detail of items obtained.

Have Management Review and Approve Adjusting Journal Entries

During our audit we noted that adjusting journal entries are completed by accounting personnel, but are not formally approved by an individual who is independent of this process. We recommend that adjusting journal entries and supporting documentation be reviewed by an independent individual and that this review be documented. Once the review is completed, the adjusting journal entries should be initialed by the reviewer as evidence that the review had taken place.

Village of Shepherd
February 29, 2008

Require Administrative Employees to Take Vacations

We noted that administrative employees are not required to take an annual, uninterrupted vacation of one week or longer. We recommend that this policy be established. Also, it is important that another person perform the absent employee's duties while he or she is on vacation. Requiring annual vacations is important in the detection of errors, inefficiencies, and irregularities; provides management with a means of cross-training employees; and helps prevent employee burnout and resulting inefficiencies.

Adopt a Credit Card Policy

We noted during our audit that a credit card policy has not been formally adopted. Public Act 266 of 1995 authorizes the use of credit cards by local units of government for appropriate expenses. The act also sets specific criteria which must be followed. One of those criteria is that the local unit must have adopted, by resolution, a written policy regarding various aspects of credit card use. A copy of the requirements of the written policy was provided to management. We recommend that the Village Council review this letter and adopt a credit card policy for the Village.